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HOME OWNERSHIP DOWN AMONG MILLENNIALS WITH STUDENT DEBT

BY TERRI WILLIAMS - AUGUST 12, 2015

Whether it's a house in the suburbs or a loft in the heart of the city, the American Dream has always included owning a home. But for the latest generation to reach adulthood, that dream may include many more years of renting – or, increasingly, living at home with mom and dad. Millennials, also known as Generation Z, may not share the same desire – or ability – to put down roots as previous generations.

The reason, at least in part? Staggering student loan debt. In 2004, U.S. consumers under the age of 30 had a collective $146 billion in student loan debt. By 2014, that number had risen to $369 billion.

According to recent research conducted by Equifax, there is a direct link between income level and student loan delinquency rates. Workers who earned less than $30,000 per year had a higher risk of delinquency. In fact, each additional $10,000 in income reduces the delinquency rate by 20%.

Equifax also found that even after millennial workers had been employed for four years, they still struggled to make their student loan payments on time. On the other hand, older workers were more successful at making timely payments.

Having to balance student loans and a mortgage can be difficult, and research reveals that the number of young adults who can afford to do both has dropped drastically. At the same time, there has also been a decrease in the number of young adults with no student loan debt who have a mortgage:

Percentage of U.S. consumers under the age of 30 with a student loan and mortgage:

2006: 32.2%
2014: 20.9%

Percentage of U.S. consumers under the age of 30 with a mortgage and no student debt:

2006: 29.6%
2014: 21.7%

GoodCall spoke with Kyle O'Dell, President of Englewood, CO-based Secure Wealth Strategies, to see if he could explain the changing student loan debt landscape and offer possible solutions.

Terri: There has always been a cost associated with attending college. While that cost is higher than it was years ago, so is the cost of cars, houses, and everything else. What accounts for the difference?

Kyle: You're correct. However, in the past, many families would save money in order to pay for their children's college education. But today, tuition and fees are increasing faster than family incomes are rising – which is causing an unnecessary burden on our nation's graduates, because in order to afford the ever-increasing expense of an education, many students have to take out student loans.

In 2014, tuition and fees increased by 3.7% to $31,231 at private colleges, and at the average in-state four-year public school, tuition increased by 2.9% to $9,139, as reported by the College Board. But inflation rose only 1.4% according to the Federal Reserve Board.

Terri: So, why has higher education become so expensive?

Kyle: Colleges and universities are in competition with one another to attract students. In order to compete, they are in the business of having larger and nicer campuses with new buildings. And while the number of full-time professors has declined across the country, and approximately 40% of students are now being taught by tenure or tenure-track professors, jobs at the administration level increased. Colleges have more deans, assistant deans and provosts than ever before.

Terri: Is there any way for students to graduate from college with less debt?

Kyle: I recommend that many students look at attending a local community college for the first two years in order to complete their required classes, and then transfer to a college or university. By attending a local community college for your first two years, you can save an average of $5,000 per year.

At the end of the day, your future employer isn't going to hold anything against you for attending a community college in order to complete your basic courses. In fact, it gives you the opportunity to show how fiscally responsible you are during your interview. Also, by attending a community college, you may have the opportunity to work or complete an internship as you go through school, which could give you a leg up.

Terri: What about other types of financial aid, like college scholarships?

Kyle: Every parent that has ever sat in my office has said that they expect or hope that their kids will one day receive a scholarship. These parents have come to realize scholarships aren't as easy to find as they had hoped, but if you do some research you can find that there is a lot of money available.

However, don't start looking for scholarships the last semester of your senior year of high school. Start looking for scholarships when you are a sophomore. Many scholarships are $1,000 to $3,000, and if you qualify for two or three of these scholarships, it can add up.

If you take the time to find out what it takes to qualify for a scholarship as a sophomore, then you can work towards that scholarship during your final two years of high school. In order to qualify for a certain scholarship, you may need a certain GPA, or you may need to have an internship or do some community service, or be involved in a particular group at school, such as Student Council. If you know this ahead of time, you can do the things necessary to receive the scholarship rather than look back and say "I wish I would have done A, B, and C, because then I would have qualified for that scholarship."

Terri: Do you have any advice for those who already have a student loan?

Kyle: I would recommend financing the loan on the longest option possible. If you have the choice between a 10-year loan and a 20-year loan, go with the 20. We always want to eliminate debt, but sometimes that monthly payment can be a burden. If you finance the loan on the longest option that is available, then your payment will be lower.

Yes, this goes against what we may think will help us pay off that debt fast, but if for some reason you lose your job, life throws a hardship at you, or you want to qualify for a home purchase, having a lower payment could be helpful. If you were fortunate enough to graduate with a nice job, I would still finance the loan on the longest option available. You can always take extra money and apply it to the loan to pay it off in a shorter time period than 20 years if you wish. But only do this if you are paying yourself first to build up your own savings.

Kyle O'Dell, former president of Secure Wealth Strategies, now managing partner at O'Dell, Winkfield, Roseman & Shipp, has been helping individu-als and families accumulate and preserve retirement wealth for more than 20 years. Kyle is an Investment Advisor Representa-tive and is also life insurance licensed. It is Kyle's mission to educate his clients on external influences that can have a significant impact on their personal financial strategies.

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